TD

Distr.
GENERAL

TD/B/SR.488
8 March 1978

ENGLISH
Original: FRENCH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD

Ninth Special Session (Third Part)

SUMMARY RECORD OF THE 488th MEETING

Held at the Palais des Nations, Geneva,
on Monday, 6 March 1978, at 4.35 p.m.

President:	Mr. de ALWIS	(Sri Lanka)
Later:	Mr. ATHULATHMUDALI	(Sri Lanka)

CONTENTS

Opening of the third (ministerial) part of the ninth special session

Opening statement by the President of the Trade and Development Board

Opening statement by the Secretary-General of UNCTAD

Institutional matters (item 5 of the provisional agenda):

(b) Announcement of any changes in the membership of the Board

Procedural matters (item 1 of the provisional agenda):

(a) Adoption of the agenda and organization of the work of the session

Pursuant to Conference resolution 94 (IV), review of motions concerning the indebtedness of developing countries, in particular, the discerning of features which could provide guidance in operations relating to debt problems (agenda item 2).

Consideration of proposals made by developing countries and of other views expressed at the first and second sessions of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries as reported in documents TD/B/670 and TD/B/685 and Add.1-3 (agenda item 3)

Consideration of Board decision 149 (XVI) relating to least developed, developing island and land-locked countries (agenda item 4)

This record is subject to correction.

Participants wishing to make corrections should submit them in writing to the Official Records Editing Section, room E.4108, Palais des Nations, Geneva, within one week of receiving the record in their working language.

Corrections to the records of the meetings of the Board at the third part of the ninth special session will be consolidated in a single corrigendum to be issued shortly after the end of that part of the session.

OPENING OF THE THIRD (MINISTERIAL) PART OF THE NINTH SPECIAL SESSION

1. The PRESIDENT declared open the third part of the session, which was of historic significance because it was being held at the ministerial level. For that reason, and following the consultations he had had with the co-ordinators of the regional groups, he invited the Board, in accordance with rule 80 of the rules of procedure, to suspend that part of rule 20 relating to the office of President, so that the third part of the session could be presided over by a minister, without prejudice to the term of office of the current President.

2. It was so decided.

3. Mr. KAMANDA (Zaire), speaking on behalf of the countries of the Group of 77, nominated Mr. Athulathmudali, Minister of Commerce of Sri Lanka.

4. Mr. [illegible] (France), speaking on behalf of the countries of Group B, Mr. [illegible] (Poland), speaking on behalf of the countries of Group D and Mr. WANG (China) supported the nomination.

5. The PRESIDENT said that, in the absence of any objection, he would take it that the Board decided that Mr. Athulathmudali should be elected President.

6. It was so decided.

7. Mr. Athulathmudali (Sri Lanka) took the Chair.

OPENING STATEMENT BY THE PRESIDENT OF THE TRADE AND DEVELOPMENT BOARD

8. The PRESIDENT said that the special session was a historic one for several reasons. It was the first time that the Board was meeting in ministerial session, following the decision taken at the fourth session of the Conference. It was also the first time the Board was addressing itself to a single problem, namely, the growing external indebtedness of the developing countries. It was, furthermore, the first occasion since the last meeting of the Conference on International Economic Co-operation that the ministers were to address themselves to an issue that was now recognized as one of the most crucial in the field of international economic co-operation and international development. Yet it was in that area that the international community had made the least progress. The General Assembly had, in resolutions 31/158 and 32/187, requested the Board to provide an immediate solution to that problem by reaching agreement on concrete and specific action. As it had not been possible to reach agreement at previous conferences and meetings, it was clear that the present ministerial session was not only faced with the challenge, but had perhaps the only available opportunity of negotiating an acceptable and equitable solution. It was therefore its task to consider the problem in a frank, realistic and constructive manner. It must not belie the

expectations of the peoples of the developing countries, particularly the least developed, the most seriously affected and other countries in need.

8. A considerable amount of preparatory work had already been done for the session. There had been two meetings of the Intergovernmental Group of Experts and had examined the problem of the external indebtedness of developing countries, and two meetings of the Board at the senior official level. Much useful effort had been made to narrow down the points at issue and to identify priority areas. The time had therefore come to accept the challenge and to make use of the present opportunity to arrive at concrete conclusions and resolutions.

9. On the basis of the studies presented to the Board, the outstanding and disbursed debt of the majority of developing countries was estimated at $175 billion at the end of 1976, and was expected to increase to $250 billion by the end of 1978, as compared with projected f.o.b. exports of $137 billion in the same year. In practical terms, that meant that debt servicing of the developing countries would absorb [illegible] of their earnings from the export of goods in 1977, and it was expected that the position was steadily deteriorating. As a result, the development [illegible] of the countries had been seriously impaired, the rate of the growth [illegible] countries had fallen far short of the target growth rate laid down in the International Development Strategy established at the beginning of the Decade.

10. Five years after the [illegible] of the international economy was being increasingly [illegible], the economic [illegible] of the developing countries, which [illegible], and to the general interests of both developed and developing countries. [illegible] the consultations and [illegible] the greater was the [illegible]. [illegible] at the national level. [illegible] considerations were [illegible]. The [illegible] of the Board [illegible] a promise of [illegible], [illegible] the social implications [illegible] an essential element of the [illegible] new international economic order.

11. It was because the members of the Group of 77 attached special importance to the session that they had [illegible] and to devote their [illegible] to it. The session had [illegible] an occasion for [illegible] with countries, or for [illegible] blame. It was [illegible]. In the questions which were [illegible] critical [illegible], [illegible] in 1978 [illegible] painful and more [illegible] international economic and financial co-operation. A solution had to be found [illegible] to the next session of the Conference [illegible] evaluation of failures. [illegible] would be a most important step, and would show that continuous dialogue need not only seem [illegible]. It would also [illegible] for greater economic justice. All nations would benefit by it.

OPENING STATEMENT BY THE SECRETARY-GENERAL OF UNCTAD

13. Mr. COREA (Secretary-General of UNCTAD) said that the Board's meeting at ministerial level was a major event in the context both of the ongoing dialogue on the establishment of a new international economic order and of UNCTAD itself as an organization. The meeting was the follow-up of Conference resolution 90 (IV) by which it had been decided that the Board should meet at ministerial level every two years between sessions of the Conference. That new institutional arrangement provided member States with an opportunity to discuss and resolve important policy issues, and thus enhanced the possibilities of stable economic growth for the world economy as a whole and, in particular, for developing countries.

14. In pursuance of Conference resolution 94 (IV) and in the light of subsequent preparatory meetings, the provisional agenda for the current session dealt with the question of the external indebtedness of developing countries. That was a complex issue which had remained a stumbling block in the international dialogue on development problems, not only at the fourth session of the United Nations Conference on Trade and Development but also at the Conference on International Economic Co-operation. Yet, since then, there seemed to have been a discernible evolution in thinking and perhaps a better appreciation of the various viewpoints. The preparatory meetings for the current session had made it possible to identify the outstanding issues, and had thus laid the groundwork for a decision at a high level. He believed that there were now sufficient common elements to enable the Board to reach a constructive consensus. Such a positive outcome would transcend the area of international financial co-operation and would certainly improve the climate in all ongoing negotiations in the field of economic relations between developed and developing countries.

15. The total outstanding debt of the developing countries had increased at the rate of about 20 per cent per annum and had possibly reached, at the end of 1977, $200 billion or $250 billion if undisbursed loan commitments were included. Debt service payments during that year appeared to have absorbed as much as 21 per cent of the merchandise exports of non-oil exporting developing countries.

16. However, those figures, impressive as they might be, did not give an exact picture of the problems. It was now generally recognized that the question of external indebtedness must be seen in the broader framework of the interdependence of forces that affected the productive capacity of a country as well as the components of its balance of payments. A problem might be said to exist when a country's foreign exchange resources originating in exports of goods and services and in long-term capital inflows continued to be insufficient to accommodate both the financing of imports necessary to sustain development as well as reverse flows on account of interest and amortization payments and profit remittances. In the past there had been controversy regarding the possible trade-off between a downward adjustment of the development process and early debt reorganization. Some had considered that, in the first instance, the brunt of adjustment should take the form of a scaling down of development programmes; others had considered that early debt reorganization would be the appropriate solution if medium-term development prospects were to be safeguarded and if longer-term debt-servicing capacity were to be improved. In the absence of international norms regarding minimum development objectives, on the one hand, and the conditions justifying debt reorganization, on the other, problems of that kind had had to be - and had been - resolved on an *ad hoc* basis, which could have resulted in unequal

treatment of countries facing similar situations. In the light of the discussions of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries, he was inclined to think that substantial progress had been achieved towards a common understanding of the issues involved, and that it might now be possible to establish internationally agreed guidelines that would safeguard both the development process of the debtor countries seeking relief and the interests of the creditors.

17. However, the question of appropriate remedial measures was but one aspect of the problem. An effective international strategy to deal with the question of external indebtedness should also encompass international measures designed to avert debt service difficulties. Seen in that broader context, the question of external indebtedness was interlinked with the functioning of the world economic system itself. The dramatic increase in the external indebtedness of developing countries had its origins in the exceptional balance-of-payments deficits on current account that many developing countries had experienced in recent years as a result of the persistence of recession and inflation at the global level. The financing of those deficits had enabled a number of developing countries to cushion to some extent the impact of external shocks upon their development programmes. It had also served as a counter-cyclical cushion for the world economy in a period of recession.

18. In the early years, the financing of the exceptional balance-of-payments deficits had been considered - justifiably, as was seen - on the view that deficits would be of a transient or cyclical nature, which had justified to a large extent the reliance on private borrowing at such terms as were then available. But after several successive years of recession and unabated inflation, and with no assurance of a reversal of those trends, it was becoming increasingly clear that those deficits might possibly continue for some time. The question therefore arose whether the "temporary" deficit-financing in the context of a normal business cycle might now have become sufficiently resilient to withstand the pressure over the longer run.

19. In his opinion, the time had come to examine the issue in its proper perspective, since the traditional distinction between short-term balance-of-payments financing and long-term development finance, while it had some validity in the case of developed countries, was now blurred. Indeed, the need of developing countries for balance-of-payments support was part of a continuing basis over a long time, as much as their need for development finance to underpin the fundamental restructuring of their economies seemed to be convergent and to require functional integration. He was still of the view that the establishment of a multilateral mechanism to provide adequate longer-term balance-of-payments financing to developing countries on terms and conditions consistent with their structural problems might usefully supplement the role of private capital markets and enhance a development-oriented adjustment process.

20. A number of developing countries had admittedly been successful so far in financing a good part of their externally-induced deficits, but their achievement should not obscure the fact that several had been able to do so only by containing domestic expenditure. However, adjustment at the expense of the development process had contributed to the shortfall in the annual GDP growth rates of developing countries as a group, in comparison with the target set forth in the

International Development Strategy. The cost of such adjustment to the development process had been particularly pronounced in the case of low per capita income developing countries, which depended on official assistance to finance their external capital needs.

91. It was indeed unfortunate that Official Development Assistance (ODA) had failed to reach the 0.7 per cent target. In fact, as a ratio of the GNP of member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), it had declined from 0.42 per cent in the period 1965-1967 to 0.33 per cent in 1976. Against that discouraging background, many of the least developed or most seriously affected countries had been obliged to cut back their development efforts. The average annual GDP growth rate of the least developed and most seriously affected countries as a whole had been only 3.4 per cent in the period 1973-1976, and the medium-term prospects were discouraging. It was clear, in those circumstances, that Governments would find it increasingly difficult to meet even their minimum development needs and, at the same time, to service their past official debts which, on the average, claimed about 18 per cent of their annual export earnings. Current debt repayments, of course, reflected terms of past loans committed and disbursed some years previously when the current world economic situation and its adverse impact on developing countries could not have been foreseen. In most instances, the terms of past assistance tended to be significantly harsher than those currently accepted as appropriate by the donor countries themselves. Thus, in the case of least developed countries, DAC member countries had now agreed to provide assistance essentially in the form of grants. Other developing countries with relatively low per capita income received bilateral assistance on terms equal to or even more favourable than International Development Association (IDA) credits. For developing countries as a group, the grant element of total ODA commitments by DAC member countries had increased from 85 per cent in 1975 to 89 per cent in 1976. The question therefore arose whether the terms of past official bilateral assistance should not be brought into line with currently prevailing norms, which were generally more consistent with the debt-servicing capacity of the low per capita income developing countries.

92. He was convinced that avoidance of debt crises and the smooth functioning of the international financial system would require that the world economy should regain its full employment growth potential, that international trade should become again open and dynamic with full access to markets for the exports of developing countries, that markets for primary commodities should be strengthened and stabilized, and that barriers to access to capital markets, especially bond markets, should be removed, at least in the case of developing countries.

93. He was, of course, aware that in the short period available to the Board, it would not be possible to discuss and resolve all aspects of the problem, and that the issues which would be raised under the agenda item were in different stages of readiness in respect of decision-making. However, in the light of the discussions that had taken place in the preparatory meetings as well as in informal consultations, he thought that the Board could concentrate its deliberations on three key issues.

[illegible]. The first and certainly most urgent issue related to the possibility of taking international measures in favour of the least developed, developing land-locked, developing island countries and other most seriously affected countries. The fact that Sweden, Canada, the Netherlands and Switzerland had recently taken measures to alleviate the debt burden of developing countries with relatively low *per capita* income, as well as the conclusions submitted by Canada to the Intergovernmental Group of Experts, gave grounds to believe that perhaps a solution might be obtained that would meet the basic objectives of the proposals made by developing countries and, at the same time, take fully into account the views expressed by developed countries with regard to debt relief. In that connexion, the Board might wish to consider the possibility of reaching an agreement on the basis of which each developed donor country would take all necessary measures to increase the grant element of the outstanding official debt owed to it by the least developed group of developing countries to a level consistent with current DAC terms. Within that broader situation, the conversion of the outstanding loans of the least developed countries into grants would seem appropriate.

[illegible]. In more broad terms, action along those lines could be applicable to the measures taken by the DAC member countries to [illegible] the [illegible] they had set in connexion with the terms [illegible] the [illegible]. The effect of such action would be to [illegible] reduce the debt service burdens of low *per capita* income developing countries. Estimates [illegible] by the secretariat indicated that the [illegible] of current [illegible] payments would amount [illegible] million.

[illegible]. The second issue related to the possibility of establishing a set of common features that could become a basis for future debt reorganizations of the [illegible] interested debtor countries. Following consideration of the question in the Intergovernmental Group of Experts, there seemed to be consensus on the point that no standard agreement could be envisaged, despite some differences revolving mainly around the balance to be struck between the obligations and responsibilities of creditor and debtor countries. He thought, however, that those differences could be resolved if the Board provided for a set of features, possibly through an expert group.

[illegible]. The third issue related to the broader aspects of the external indebtedness of developing countries, the contribution of the private capital markets and the possible role of official financial intermediation. While no specific proposals appeared to be ripe for consideration at the current stage, the Board might wish to keep the matter under its review for further consideration, taking into account any suggestions that member States might make during the session.

[illegible]. Mr. [illegible] ([illegible]), speaking on behalf of the Group of 77, seconded by Mr. [illegible] (France), speaking on behalf of Group B, requested that the text of the statement by the Secretary-General of UNCTAD, which would be very useful to the Board in its work, should be circulated as a working document.

[illegible]. Mr. [illegible] (Secretary of the Board) said that the financial implications of a decision to circulate the text, of [illegible] pages, would amount to $[illegible].

50. The PRESIDENT said that, if he heard no objection, he would take it that the Board decided to have the statement by the Secretary-General of UNCTAD circulated as a working document.

51. It was so decided.

INSTITUTIONAL MATTERS (item 6 of the provisional agenda)

(b) ANNOUNCEMENT OF ANY CHANGES IN THE MEMBERSHIP OF THE BOARD

52. The PRESIDENT said that the United Arab Emirates had informed the Secretary-General of UNCTAD that it wished to become a member of the Board. If there were no objections, he would take it that the United Arab Emirates had been designated as a member of the Board.

53. It was so decided.

PROCEDURAL MATTERS (item 1 of the provisional agenda)

(a) ADOPTION OF THE AGENDA

54. The provisional agenda (TD/B/694) was adopted.

PURSUANT TO CONFERENCE RESOLUTION 94 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR, THE DISCERNMENT OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS (agenda item 2)

CONSIDERATION OF PROPOSALS MADE BY DEVELOPING COUNTRIES AND OF OTHER VIEWS EXPRESSED AT THE FIRST AND SECOND SESSIONS OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES AS REPORTED IN DOCUMENTS TD/B/672 AND TD/B/685 AND ADD.1-3 (agenda item 3)

CONSIDERATION OF BOARD DECISION 149 (XVI) RELATING TO LEAST DEVELOPED, DEVELOPING ISLAND AND LAND-LOCKED DEVELOPING COUNTRIES (agenda item 4)

55. Mr. KANATA (Zaire), speaking on behalf of the Group of 77, said that the first ministerial session would go down in the history of international economic relations: those who were invested with political responsibility would endeavour to seek solutions to critical issues which had proved so difficult to resolve at other levels.

56. In recent years, the world economy had experienced unprecedented economic disruption. High rates of inflation had coincided with the worse recession in 40 years. The terms of trade of most developing countries had deteriorated so sharply that their current account deficits had tripled, increasing from an annual average of about $10 billion in the early 1970s to about $30 billion. The development prospects of those countries had been seriously affected. In the most disadvantaged countries, real growth rates had barely attained half the target set in the International Development Strategy. The developing countries, which depended mainly on official transfers to meet their external financial needs,

had had to cut back their imports sharply because the servicing of official debt absorbed a disproportionate amount of their external resources: for example, between 1970 and 1976, the annual growth rate of imports of the least developed and the most seriously affected countries had been approximately 1 per cent compared to the development strategy target of 7 per cent.

37. Of those developing countries which had had access to international capital markets only a few had managed, in spite of very difficult external circumstances, to achieve acceptable rates of growth, some by borrowing heavily on onerous terms combined with relatively short maturities.

38. The ministerial session offered an opportunity to redress the situation by reaching agreement on one of the key issues of international economic co-operation: the indebtedness of developing countries. The magnitude of that debt had increased sharply from less than $ 60 billion at the beginning of the decade to some $180 billion at the end of 1976. The corresponding rise in the debt servicing burden had outpaced the increases in a number of ways. Debt servicing was a major charge on the meagre foreign exchange earnings of developing countries which, in [illegible] effect on discharge fully their obligations, had had to curtail imports and investment. Moreover, that servicing had to be effected in hard foreign exchange and constituted a serious drain on the most [illegible] scarce item of economic resources. In the absence of effective remedial measures, developing countries in a debt crisis would continue to [illegible] their debt servicing charges and would be forced to resort to further contraction of their import and investment programmes. Such restrictions would have disastrous effects not only on their efforts to improve the conditions of life of hundreds of millions of people living in abject poverty, but also on the restoration of the equilibrium of the world economy which would facilitate the steady growth of the global economy, including that of the developed countries.

39. In 1976, the reported servicing of official debt for the least developed and most seriously affected countries was about $1 billion, or almost one-quarter of gross aid flows to those countries. Thus, if debt relief were granted on their official debt, the import capacity of each of those countries would rise by a corresponding amount and, moreover, additional foreign exchange resources would be made available to them in an automatic and immediately usable form. That would enable them to plan better and with greater confidence for the future.

40. That confidence would be further strengthened if uncertainties about the future were removed by the establishment of a [illegible] framework to deal with the rescheduling of the debt of the developing countries concerned. The solution to the debt problem was therefore of major importance, not only because of the substantial immediate economic benefits it offered, but also because it would be a decisive step towards helping developing countries to make use of their potential. It was, therefore, one of the key elements of the new international economic order.

41. The developing countries had made detailed proposals which had been before all Governments for some time, and the Group of 77 had also tabled a working paper TD/B/691, annex III suggesting the manner in which the meeting should approach

those proposals. The granting of official debt relief by the developed countries to special categories of developing countries, as proposed by the Group of 77, consisted, in effect, only in extending to past loans the standards of concessionality currently recognized to be appropriate, by converting the official debt of the least developed, land-locked and island developing countries into grants, and by extending the same treatment to other most seriously affected countries or, at least, recalculating their official debt on IDA terms. That would bring the grant element of past official debt closer to the average grant element of current ODA flows to those categories of countries. The adoption of those proposals by the ministerial meeting would be a first step demonstrating the political will of the developed countries to fulfil their commitments to support the development objectives of the developing countries. In that connexion, the Group of 77 wished to express its appreciation of the steps taken recently by some developed creditor countries, which showed that its proposals were feasible and realistic. The memorandum submitted by the Government of Sweden on the subject represented a commendable effort to facilitate agreement.

42. The proposals of the Group of 77 made a clear distinction between official debt and commercial debt; the relief proposed related only to the former. As regards commercial debt, the Group of 77 had made only safe proposals. It attached great importance to the solution of the commercial debt problems of the developing countries concerned, and proposed that the ministerial meeting should request the Secretary-General of UNCTAD to study the issue further in the light of the proposals which had been put forward and in consultation with member States, and suggest measures for consideration by the Board at its eighteenth regular session.

43. As regards future debt reorganization operations, if the rules of the game were known in advance by all the countries concerned, financial relationships between creditor and debtor countries would be more stable and less uncertain, and would prove beneficial to both in the long term. The meeting should endorse the establishment of guidelines for those operations on the basis of the proposals submitted by the Group of 77, in conformity with the international community's commitment to the achievement of satisfactory rates of growth in the developing countries. Detailed negotiations on the details of the guidelines could thus begin in the very near future.

44. Viewed in the context of the wide range of economic problems faced by the international community, the solution to the debt problem of the developing countries became all the more imperative. Even before the world economy had fully recovered from the recession of the past few years, there were already indications of new uncertainties. Developing countries had been obliged to finance their debt servicing and their imports through export earnings. But world trade was currently growing at its lowest rate in many years. Economic policies in the industrial countries were doing little to bring about an improvement, and the failure of those countries to achieve their own growth targets had led to considerable unemployment, which explained the increase in protectionism in the developed countries. Several export items of interest to developing countries had already come under severe restrictions and the export prospects of those countries had been considerably compromised by the direct and

indirect action of the developed countries. At the same time, official assistance flows, which were far below international targets, had not increased. ODA from DAC member States, which had represented 0.35 per cent of their combined GNP in 1975, had declined to 0.33 per cent in 1976. Finally, private capital was available only to a limited number of developing countries and, even in such cases, only on onerous terms combined with relatively short-term maturities. In that economic environment, it was evident that, unless the international community immediately took adequate measures, development prospects for the developing countries in the short and medium term would remain bleak, and the social and economic consequences would last for decades.

45. Despite recognition by both developed and developing countries that the situation required urgent and decisive action by the international community, international negotiations in various forums had made little progress since the fourth session of the Conference. In the circumstances, the Board faced the prospect of submitting to the fourth session of the Conference nothing but a string of failures. The meeting offered the Board an opportunity of achieving the long-awaited breakthrough. The debt problem of the developing countries was not a purely financial question between lender and borrower. It embraced the whole underlying philosophy of international economic co-operation, and had to be seen in the context of the establishment of the new international economic order. It must not be said that the ministers - the political representatives of their peoples - were unable to grasp the true nature of the problems involved. If they failed to find meaningful solutions, those peoples would seriously question whether the calls for international economic co-operation that they had so often heard had any meaning.

The meeting rose at [illegible] p.m.